

Governor Dave Heineman

State of the State Address

January 15, 2013

103rd Legislature

First Session

“Today, we are operating in a technology-driven, global free market economy. Our current tax system needs to be modernized and transformed. It’s been nearly 5 decades since Nebraska has had a serious debate about our overall tax system. Life has changed drastically since the 1960s, when we were operating in a completely different economic environment.”

Mr. President, Mr. Speaker, Members of the Legislature, Tribal Chairmen, Distinguished Guests, Friends and Fellow Nebraskans:

I am excited to be here today at the beginning of the 2013 legislative session as we take this opportunity to continue moving Nebraska forward. Since 2005, the Nebraska Legislature and I have worked together to make a positive difference for Nebraskans. You and I have positioned Nebraska as a state that is making significant progress. This is a great state and it starts with our citizens. Nebraskans are hard-working, practical, responsible, and innovative.

As Nebraskans, we bring a sense of quiet pride to everything we do. We respect each other and we want our children to have an even better Nebraska in the future. Nebraska is a special place and our job is to ensure that Nebraska is prosperous today and in the future.

We are on the right path and that path starts with a quality education. Education is the great equalizer and education is one of our state's top priorities. We invest in education because we know how important it is. Your new Speaker, Senator Greg Adams, has been part of our P-16 Initiative to strengthen academic achievement for all students in Nebraska.

In 2008, I signed into law the Legislature's LB 1157 that provides for statewide assessments in reading, writing, math and science. Thanks to that legislation and our partnership with Commissioner Breed and the State Board of Education, more than ever before the focus of our school districts is now on academic achievement. We can be very proud that Nebraska's high school graduation rate is 86 percent - the 4th best in America. We have good schools, and they want to be even better in the future.

My proposed budget continues to make K-12 education a priority by increasing state aid to education from \$852 million to \$895 million in fiscal year 2014 and to \$939 million in fiscal year 2015. Additionally, I am proposing a 5 percent increase in special education funding in each of the next two years.

Our students of today are the leaders of tomorrow, and it is critical to our future that they have affordable access to a quality higher education. Last week, University of Nebraska President J.B. Milliken, Nebraska State College Chancellor Stan Carpenter and I announced that the University of Nebraska and Nebraska's State Colleges are prepared to implement a two-year tuition freeze for Nebraska students if you adopt my proposed budget. My recommendation provides the necessary state funding to achieve this two-year tuition freeze for UNL, UNK, UNO, UNMC, Chadron State, Wayne State and Peru State. This is very good news for Nebraska families who are working very hard to ensure that their sons and daughters can afford to go to college. Community colleges are an important component of our education system, as well. I am proposing a similar increase in community college funding for each of the next two years so that each of our six community colleges can also consider adopting a two year tuition freeze.

But, educating the students of today for the jobs of tomorrow is only half of our formula for continued success. In order for Nebraska to continue to grow, we must create jobs that will retain our best and brightest, and welcome future Nebraskans to our state. Working together with the Legislature in my first year as Governor, we passed the Nebraska Advantage and it has been incredibly successful.

Agriculture is an important part of our economy and agriculture remains relatively strong in Nebraska. We're second in cattle on feed, third in corn production, sixth in soybean production and the second leading ethanol producer. However, our farmers and ranchers have also faced the challenge of the drought

this past year, and they have managed their operations with efficiency and flexibility. Water resources will continue to be a challenge for agriculture, businesses and communities due to the continued drought.

Exports are important to Nebraska, and last summer I led a trade mission to China. We continue to expand and strengthen our relationship with China, just like we have done with Canada, Mexico, Japan and many other countries. During the past few years, Nebraska exports to China have grown rapidly and China is now Nebraska's fourth largest trading partner. The Nebraska-China relationship is just beginning and I am confident this will be a growing and improving relationship for many years to come.

As we continue to make state government more efficient and more accessible to our citizens, I want to recognize our technology professionals throughout state government for what they do. From online motor vehicle registration renewals to our 511 system that provides immediate and accurate information about current road conditions, our goal is to provide more and better technology in the future.

I am also very pleased to share with you our efforts to have state workers make wellness a part of their everyday lives. We offer an innovative wellness program and a health insurance package designed around wellness. In 2012, the State of Nebraska wellness program became the first and only state program to earn the coveted C. Everett Koop National Health Award. To receive this prestigious award, you have to demonstrate health improvements and cost savings. This award reflects how hard state employees have worked to improve their health.

After just three years, the State of Nebraska has seen a \$4.2 million reduction in claims, strong participation rates and high satisfaction among employees. Our focus on wellness is resulting in a healthier work force and our insurance premium increases are significantly lower than the national average.

At the federal level, health care policy is a different story. In the next two year budget cycle, the State of Nebraska and every state in America is required by law to implement President Obama's new federal health care law. The financial impact is enormous.

It will cost more than \$170 million in federal and state funds over the next eight years to implement just the technology and administration required by the new federal health care law. And even more significant: it will cost the State of Nebraska \$72 million in new general funds in this budget for the growth of the current Medicaid program as a result of the new federal health care law. That's \$72 million in new general fund spending for President Obama's new federal health care law – money that should be going to state aid to education or higher education.

I am also very concerned about federal economic policy and its impact on Nebraska. Unlike the federal government, we don't spend money we don't have. We balance our budget in state government and our family budgets by controlling spending, not by raising taxes. Nebraskans are very careful and conservative in how they spend their money.

This conservative approach has led to positive national recognition. Lending Tree said Nebraskans have the lowest average monthly mortgage payment of any state in America. 24/7 Wall Street named Nebraska the third best run state in America. Gallup has recognized Nebraska as the fourth best state to live in.

Nebraska has good schools, affordable homes, a strong work ethic and a low unemployment rate, but taxes are too high in Nebraska. High taxes impede economic growth. High taxes aren't attractive for entrepreneurial growth and high paying jobs.

The Small Business and Entrepreneurship Council states in their 2012 U.S. Business Policy Index that “A high personal income tax rate raises the costs of working, saving, investing, and risk taking...the personal income tax influences businesses far more than generally assumed because more than 92 percent of businesses file taxes as individuals and therefore pay personal income taxes rather than corporate income taxes.” This same report states that Nebraska’s top personal income tax rate is the 35th highest in America and higher than every one of our neighboring states.

Additionally, 23 states exempt a portion of or all retired military pay, but Nebraska does not. Forty-three states exempt a portion of or all social security income from taxation, but Nebraska does not. Forty-two states don’t have an inheritance tax, but Nebraska does. According to the Tax Foundation, Nebraska’s Business Tax Climate is 31st out of fifty states. That’s mediocre at best. We are not even in the top half of all states. Missouri is 16th. Colorado is 18th. Kansas is 26th. Wyoming and South Dakota are one and two. Only Iowa ranks lower at 42nd.

While rankings are important, this is really about the next generation of Nebraska’s leaders – our sons and daughters, and our grandchildren. How many of you have sons and daughters, grandchildren, brothers and sisters and other family members who no longer live in Nebraska because they couldn’t find a job here or they couldn’t find the right career here in Nebraska? Every family in Nebraska knows exactly what I am talking about.

The question is – are we willing to do something about it? Are we going to be satisfied with a mediocre tax system that won’t create the jobs of the future for our sons and daughters? Or, are we willing to consider reforming the tax code so that we have a modern, simpler and fairer tax code? Are we willing to consider a bold, innovative and strategic tax reform plan that would create a top ten business tax climate in Nebraska?

I am. I believe you are, too. And Nebraskans know we can do better than a mediocre tax system.

So, what can we do? The State of Nebraska’s sales and income tax system generates approximately \$4 billion in revenue. The income tax system raises nearly \$2.4 billion. The remainder comes from sales tax revenue.

But, did you know that the State of Nebraska provides \$5 billion in sales tax exemptions? Nebraska exempts more than we collect. Is that fair to our small businesses and working Nebraskans?

Imagine if we eliminated just half of the current exemptions. What would that mean for our citizens?

Nebraska wouldn’t need to have an individual income tax or a corporate income tax.

Without the individual income tax and the corporate income tax, there would be no income tax on working Nebraskans. Social security and military retirement income would no longer be taxed. There would be no tax on small businesses.

In recent months, I have asked business leaders if they would give up their sales tax exemptions if we could eliminate the individual income tax and the corporate income tax or at least lower the individual and corporate tax rates. You may be surprised, but many are willing to have that discussion. They want simplicity and fairness. They want a modern tax code that rewards productivity, profits and job creation rather than having their lawyers and accountants spending time mining the tax code for exemptions.

Our tax system shouldn't favor one industry over another. Change is not easy, especially when it involves taxes, but this is the discussion that our state needs to have.

The world has changed and our current tax system needs to be modernized and transformed. It's been nearly 5 decades since Nebraska had a serious debate about our overall tax system.

Life has changed drastically since the 1960s. We were operating in a completely different economic environment then. The average cost of a new home was \$24,000. A first-class stamp was 5 cents and gas was 33 cents a gallon. In the 1960s, Americans didn't even have personal computers in their homes.

Today, we live in an electronic age. Today, we are educating our children for jobs that have not yet been created, using technologies that have not yet been invented. Today, we are operating in a technology-driven, global free market economy, and we need a modern tax system.

Our tax reform proposal is revenue neutral and budget neutral. I know there are organizations that want to tax more services with the overall goal of growing government. These organizations want to spend more tax dollars on more government programs. That is not what most Nebraskans want and that is not what our plan is about.

Our goal is a better business tax climate that will create more high-paying jobs and more rewarding careers for our sons and daughters. We need a tax climate that rewards middle class families for their hard work. In the next few days, I will have legislation introduced that provides alternative options for eliminating many business sales tax exemptions that could lead to the elimination of the individual income tax and the corporate income tax or at least lowering Nebraska's individual and corporate tax rates.

This will provide a starting point for our discussion. I want to emphasize one point – our proposal will not tax food. This tax debate will be challenging, but it is necessary.

Nebraskans have strong opinions, and we are able to disagree on policy in an agreeable and respectful manner. I welcome and look forward to your input. I am prepared to work with you and all Nebraskans, because together we can develop a better tax system for Nebraska.

By adopting a modern, simpler and fairer tax code, we have the opportunity to make Nebraska a top ten business tax climate state so that our sons and daughters, and new citizens, can find jobs and careers right here in Nebraska. Our young people will stay here because they will have good jobs and they will have good careers. Seniors and retirees will stay because Nebraska will no longer tax their Social Security and retirement income. Our entrepreneurs will grow their businesses in Nebraska, because they will no longer face the burden of Nebraska being the 35th highest taxed state on small businesses.

The choice is ours. This is about Nebraska's future. Nebraskans care about this special place we call home. We want Nebraska to be an even better place to live, to work and to raise a family in the future. Let's begin this statewide conversation, and together we will find a Nebraska common sense solution. Thank you.